

Message Text

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PAGE 01 THE HA 00412 251525Z
ACTION EUR-12

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H-01 AID-05 CEA-01 CIAE-00 COME-00 EB-08 EA-07 FRB-03
INR-07 IO-13 NEA-10 NSAE-00 OPIC-03 TRSE-00 CIEP-01
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SUBJ: EDRC REVIEW OF NETHERLANDS

REF: OECD PARIS 2127

1. SUMMARY: GON HAS RECENTLY REVISED FORECASTS FOR 1977 ECONOMIC PERFORMANCE WHICH BASICALLY AGREE WITH OECD SECRETARIATE PAPER. END SUMMARY.

2. ONE PERCENT ROUND: CONTRARY TO IMPRESSION ENCOURAGED BY GON, ONE PERCENT POLICY DOES NOT REPRESENT EFFORT TO REDUCE PUBLIC SECTOR SHARE OF GNP. RATHER GROWTH OF PUBLIC SECTOR SHARE IS TO BE REDUCED TO INCREASE OF ONE PERCENTAGE POINT OF GNP PER YEAR--I.E. 54 PERCENT IN 1977, 55 PERCENT IN 1978, ETC.

3. INVESTMENT STIMULUS: SELECTIVE INVESTMENT FUND IS SCHEDULED TO REPLACE ALL TAX INCENTIVES TO INVESTMENT ON APRIL 1, 1977. DETAILS OF FUND HAVE NOT YET BEEN WORKED OUT, BUT CURRENT THINKING IS IN TERMS OF TEN PERCENT

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PAGE 02 THE HA 00412 251525Z

SUBSIDY IN CASH, TAX REBATES OR WAGE SUBSIDIES, AS THE CASE WARRANTS. INVESTMENT PLANS WOULD BE SUBMITTED TO GON (PRESEUMBABLY ECON AND SOCIAL AFFAIRS MINISTRIES) WHICH WOULD DETERMINE ELIGIBILITY FOR SUBSIDIES ON BASIS OF SOCIAL AND ECONOMIC POLICY CRITERIA INCLUDING LABOR INTENSIVENESS, ENVIRONMENTAL IMPACT, REGIONAL ECONOMIC DEVELOPMENT, ENERGY INTENSIVENESS AND (ACCORDING TO SOME

SOURCES) EXPORT EFFECTS. FUND HAS BEEN CRITICIZED SHARPLY BY MANY, INCLUDING PRESTIGIOUS TRIPARTITE SOCIAL-ECONOMIC COUNCIL (SER), WHICH HAS URGED POSTPONEMENT. MANY ANALYSTS THINK BUREAUCRATIC AND POLITICAL REVIEW OF PLANS WILL ACT AS A DETERRENT TO INVESTMENT, ESPECIALLY AMONG SMALLER FIRMS UNABLE TO DEAL WITH GOVERNMENT ON SAME TERMS AS GIANTS SUCH AS PHILIPS AND AKZO. CENTRAL PLANNING BUREAU SUGGESTS PRIVATELY THAT SOME FIRMS HAVE ACCELERATED INVESTMENT PLANS IN HOPES OF IMPLEMENTING THEM BEFORE APRIL 1, THUS AVOIDING APPLICATION OF PROVISIONS OF FUND. ANOTHER CONCERN OF CRITICS OF THE FUND IS WHETHER IT MIGHT CAUSE DISTORTIONS WHICH WOULD RESULT IN THE CREATION OF INVESTMENTS WHICH MAY NEVER BECOME ECONOMICALLY VIABLE WITHOUT SUBSIDY. FINALLY WE UNDERSTAND EC COMMISSION HAS INDICATED THAT SCHEME MAY VIOLATE ARTICLE 92 OF TREATY OF ROME (STATE AIDS).

4. CONSUMPTION: WE NOTE THAT PLANS FOR GROWTH OF PUBLIC SECTOR AND INVESTMENT AS SHARES OF GNP IMPLY A MAXIMUM OF THREE PERCENT REAL GROWTH IN TOTAL PRIVATE CONSUMPTION, ALLOWING IT TO FALL FROM 37.1 PERCENT OF GNP TO 36.3 PERCENT. WHILE GOVERNMENT SPENDING AND INVESTMENT CAN CREATE AGGREGATE DEMAND WHICH WILL SUBSTITUTE IN PART FOR PRIVATE CONSUMPTION, BOTH ARE INHERENTLY LIMITED IN SCOPE. IF RECOVERY IS TO BECOME SELF SUSTAINING, IT NEEDS STIMULUS FROM PRIVATE CONSUMPTION TO SPREAD IT OVER A BROADER SECTION OF DUTCH INDUSTRY.

5. CURRENT ACCOUNT: SECRETARIAT FORECAST OF CURRENT ACCOUNT LIMITED OFFICIAL USE

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PAGE 03 THE HA 00412 251525Z

SURPLUS OF SEVEN BILLION GULDERS (\$2.8 BILLION) IN 1977 IS IN LINE WITH GON ESTIMATES. SURPLUS IS A PROBLEM SINCE IT CREATES UPWARD PRESSURE ON GUILDER. GON HAS RECENTLY REOPENED LOAN MARKET TO FOREIGNERS AND REDUCED INTEREST RATES IN AN EFFORT TO EASE THIS PRESSURE. MISSION MAY WISH TO QUERY DUTCH ON EFFECTS OF GUILDER APPRECIATION ON EXPORT INDUSTRIES AND RECOVERY IN GENERAL, PARTICULARLY IN LIGHT OF IMPORTANCE OF EXPORTS AS MAIN GROWTH ELEMENT IN DEMAND. ON OTHER SIDE OF EQUATION, LACK OF IMPORT GROWTH IS MAJOR CONTRIBUTOR TO SURPLUS. MORE EXPANSIONARY MEASURES, ESPECIALLY IN AREA OF PRIVATE CONSUMPTION MENTIONED ABOVE, COULD CONTRIBUTE TO REDUCTION OF EXCESSIVE SURPLUS AND HAVE BENEFICIAL EFFECTS INTERNATIONALLY.

6. PRICES: AS A RESULT OF APPRECIATION OF GUILDER AND TIGHTER PRICE CONTROLS (INCLUDING PROHIBITION OF PASS-THROUGH OF WAGE COSTS), OFFICIAL INFLATION ESTIMATES FOR 1977 HAVE NOW BEEN REDUCED TO BETWEEN FIVE AND 5.5 PERCENT. AT PRESENT, THIS ESTIMATE APPEARS REALISTIC,

BUT GOVERNMENT MAY HAVE TO SOFTEN STANCE ON PRICES TO
ACHIEVE WAGE AGREEMENT. IN THAT EVENT, FIGURES MIGHT
RISE TO 6.5 - SEVEN PERCENT.

7. EXCESS PROFITS TAX (VAD): SECRETARIATS COMMENTS ON
VAD ARE CONFIRMED BY BUSINESS ATTITUDES. BUSINESS OR-
GANIZATIONS, INCLUDING AMCHAM, HAVE STRONGLY OPPOSED VAD,
POINTING OUT POTENTIALLY SERIOUS LOSS OF INVESTMENT, BOTH
DOMESTIC AND FOREIGN. GON DEFENDS VAD ON GROUNDS OF ITS
IMPORTANCE TO LABOR, SUGGESTING HIGHER WAGE DEMANDS AND
LABOR UNREST AS ALTERNATIVE. BILL CURRENTLY IN PARLIA-
MENT STILL FACES SERIOUS DIFFICULTIES DESPITE GON'S IN-
DICATION OF WILLINGNESS TO COMPROMISE ON MOST DIFFICULT
POINTS. NEVERTHELESS, VAD IS ONE OF FOREMOST ITEMS IN
GON'S LEGISLATIVE PROGRAM BEFORE MAY ELECTIONS AND IT WILL
BE PUSHED HARD.

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PAGE 04 THE HA 00412 251525Z

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